SaskTel

Financial Statements of

SASKATCHEWAN TELECOMMUNICATIONS

December 31, 2001

PRICEWATERHOUSECOOPERS

102-05041/

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Auditors' Report

To the Members of the Legislative Assembly,
Province of Saskatchewan

We have audited the statement of financial position of **Saskatchewan Telecommunications** as at December 31, 2001 and the statements of operations, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the corporation as at December 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

PricewaterhouseCoopers refers to the Canadian firm of PricewaterhouseCoopers LLP and other members of the worldwide PricewaterhouseCoopers organization.

STATEMENT OF OPERATIONS

For the year ended December 31 (Thousands of dollars)	**2001**	2000 (Restated see Note 3)
Operating revenues	**$ 773,023**	$ 723,890
Operating expenses		
Operating expenses	**445,524**	443,684
Contribution and carrier costs	**42,440**	23,644
Depreciation and amortization	**145,040**	148,089
Restructuring and other charges	**-**	10,638
	633,004	626,055
Income from operations	**140,019**	97,835
Other income	**2,273**	3,307
Interest and related costs (Note 4)	**35,835**	36,721
Net income	**$ 106,457**	$ 64,421

STATEMENT OF RETAINED EARNINGS

For the year ended December 31 (Thousands of dollars)	**2001**	2000 (Restated see Note 3)
Retained earnings, beginning of year (Restated see Note 3)	**$ 268,900**	$ 290,552
Net income	**106,457**	64,421
	375,357	354,973
Dividends	**140,812**	86,073
Retained earnings, end of year	**$ 234,545**	$ 268,900

See Accompanying Notes

STATEMENT OF FINANCIAL POSITION

As at December 31 (Thousands of dollars)	**2001**	2000 (Restated see Note 3)
Assets		
Current assets		
Short-term investments (Note 5)	**$ 21,477**	$ -
Accounts receivable	**91,869**	98,959
Inventories	**5,241**	5,793
Prepayments	**7,007**	6,379
	125,594	111,131
Property, plant and equipment (Note 6)	**816,379**	843,890
Other assets (Note 7)	**46,662**	69,398
	$ 988,635	$ 1,024,419
Liabilities and Province's equity		
Current liabilities		
Bank indebtedness	**$ 14,328**	$ 13,531
Accounts payable	**85,760**	129,853
Accrued interest	**5,566**	4,931
Dividend payable	**27,757**	23,830
Service billed in advance	**22,940**	22,038
Current portion of long-term debt (Note 8)	**3,476**	5,330
	159,827	199,513
Long-term debt (Note 8)	**327,068**	288,811
	486,895	488,324
Province of Saskatchewan's equity		
Equity advance (Note 9)	**267,195**	267,195
Retained earnings	**234,545**	268,900
	501,740	536,095
	$ 988,635	$ 1,024,419

See Accompanying Notes

On behalf of the Board

STATEMENT OF CASH FLOWS

For the year ended December 31 (Thousands of dollars)	**2001**	2000 (Restated see Note 3)
Cash provided by (used in):		
Operating activities		
Net income	**$ 106,457**	$ 64,421
Items not affecting cash from operations (Note 10)	**136,683**	139,592
Net change in non-cash working capital items	**(32,412)**	33,298
	210,728	237,311
Financing activities		
Saskatchewan Telecommunications Holding Corporation	**(13,496)**	(38,782)
Repayment of Province of Saskatchewan debt	**(15,732)**	(51,197)
Proceeds from long-term debt	**60,000**	25,330
Dividend	**(136,885)**	(62,243)
	(106,113)	(126,892)
Investing activities		
Capital expenditures	**(117,210)**	(104,725)
Other assets	**33,275**	(1,340)
	(83,935)	(106,065)
Increase in cash	**20,680**	4,354
Bank indebtedness, beginning of year	**(13,531)**	(17,885)
Cash and cash equivalents, end of year	**$ 7,149**	$ (13,531)
Comprised of:		
Short-term investments	**$ 21,477**	$ -
Bank indebtedness	**(14,328)**	(13,531)
	$ 7,149	$ (13,531)
Interest Paid	**$ 29,761**	$ 39,455

See Accompanying Notes

NOTES TO FINANCIAL STATEMENTS

Note 1 -- The Corporation

Saskatchewan Telecommunications (the Corporation) markets and supplies a range of voice, data, internet, wireless, text and image products, systems and services. The Corporation is a Saskatchewan Provincial Crown corporation operating under the authority of The Saskatchewan Telecommunications Act, and as such, the Corporation is not subject to Federal or Provincial income taxes in Canada.

The Canadian Radio-television and Telecommunications Commission (CRTC) regulates the Corporation under the Telecommunications Act (Canada).

By virtue of The Crown Corporations Act, 1993, the Corporation has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC). Accordingly, the financial results of the Corporation are included in the consolidated financial statements of CIC, a Provincial Crown corporation, through consolidation with Saskatchewan Telecommunications Holding Corporation (Holdco).

Note 2 -- Summary of significant accounting policies

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in Canada, and in conformity with prevailing practices in the Canadian telecommunications industry.

Property, plant and equipment

Property, plant and equipment is recorded at cost including materials, services, and direct labour.

Depreciation is computed on the straight-line, equal-life group method using rates determined by a continuing program of engineering studies for each class of property in service.

When depreciable telecommunications property is retired, the cost of such property, adjusted by any disposal proceeds and costs of removal, is charged to accumulated depreciation.

Revenues

Operating revenues from the sale of services are recognized when services are performed. Equipment sales are recognized at the point of sale.

Inventories

Materials, supplies and inventories are recorded at the lower of cost and net realizable value. Cost is determined using an average-cost basis.

Employee benefit plans

The Corporation accrues its obligations under employee benefit plans and the related costs, net of plan assets. The Corporation has adopted the following policies:

The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method pro rated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees.

For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.

The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of the plan assets is amortized over the average remaining service life of active employees of the plan.

Foreign currency translation
Monetary assets and liabilities denominated in foreign currencies are translated at the year-end exchange rates. Revenues and expenses are translated at rates of exchange prevailing on the transaction dates. Translation gains and losses on foreign currency denominated monetary items are taken into income in the current year. This policy was adopted retroactively during 2001.

Financial instruments
Any premiums or discounts with respect to financial instrument contracts are deferred and amortized to earnings over the contract period.

Use of estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods.

Note 3 – Change in Accounting Policy

During 2001, the Corporation adopted the new accounting recommendation for *Foreign currency translation*. Under the new method, the Corporation is no longer able to defer and amortize unrealized translation gains and losses on foreign currency denominated monetary items. This change has been adopted retroactively.

The effect of adopting this policy on the financial statements as at December 31, 2000 is outlined below:

	(Thousands of dollars)
Interest and related costs increased	$ 3,640
Net income decreased	3,640
Other assets decreased	25,648
Opening retained earnings decreased	22,008
Items not affecting cash from operations increased	3,640

The balance of retained earnings at January 1, 2000 has been restated as follows:

	(Thousands of dollars)
Retained Earnings, beginning of year (as previously reported)	$ 312,560
Change in accounting policy for foreign currency translation	22,008
Retained earnings, beginning of year (restated)	$ 290,552

The balance of retained earnings at December 31, 2000 has been restated as follows:

	(Thousands of dollars)
Retained Earnings, beginning of year (as previously reported)	$ 294,548
Change in accounting policy for foreign currency translation	25,648
Retained earnings, beginning of year (restated)	$ 268,900

NOTES TO FINANCIAL STATEMENTS

Note 4 -- Interest and related costs

(Thousands of dollars)	**2001**	2000 (Restated see Note 3)
Interest expense	**$ 30,956**	$ 37,886
Foreign currency translation losses	**8,132**	4,962
Amortization of discount on long-term debt	**9**	175
	39,097	43,023
Less sinking fund earnings	**3,262**	6,302
	$ 35,835	$ 36,721

Note 5 -- Short-term investments

The balance consists of funds invested with Holdco at an average current market interest rate of 4.19%.

Note 6 -- Property, plant and equipment

	2001	2000 (Thousands of dollars)
Buildings, plant and equipment	**$ 2,162,630**	$ 2,093,861
Plant under construction	**88,820**	95,843
Materials and supplies	**10,044**	9,950
Land	**4,018**	3,877
	2,265,512	2,203,531
Less accumulated depreciation	**1,449,133**	1,359,641
	$ 816,379	$ 843,890

The composite depreciation rate on the average depreciable telecommunications property in service was 6.7% in 2001 (2000 - 7.1%).

As at December 31, 2001, the ratio of accumulated depreciation to depreciable telecommunications property was 67.0 % (2000 - 65.0%).

Note 7 -- Other assets

	2001	2000 (Restated see Note 3)
	(Thousands of dollars)	
Deferred pension costs	**$ 39,125**	$ 57,755
Competition implementation costs	**4,325**	7,455
Unamortized discount on long-term debt	**724**	1,540
Other	**2,488**	2,648
	$ 46,662	$ 69,398

NOTES TO FINANCIAL STATEMENTS

Note 8 -- Long-term debt

	Years to Maturity	Average Fixed Interest Rate (%)	2001	2000
			(Thousands of dollars)	
Province of Saskatchewan:				
Canadian dollar issues	1 - 5 years	10.71	$ **61,554**(a)	$ 49,561
Canadian dollar issues	6 - 10 years	9.72	**94,376**(a)	66,974
Canadian dollar issues	28 years	5.00	**35,000**(b)	35,000
U.S. dollar issue	19 years	9.38	**159,260**(c)	149,950
			350,190	301,485
Less sinking funds			**26,788**(d)	31,061
Total Province of Saskatchewan debt			**323,402**	270,424
Due to Holdco			**4,999**(e)	18,495
Other			**2,143**	5,222
Total long-term debt			**330,544**	294,141
Less current portion of long-term debt			**3,476**	5,330
			$ **327,068**	$ 288,811

(a) Long-term debt totaling $95,930,000 is subject to redemption at the option of the holder on six months notice, or at the option of the issuer on 30 days notice, as outlined in the terms and conditions.

(b) Long-term debt totaling $35,000,000 contains a one-time redemption provision exercisable on March 5, 2006, whereby the investor may redeem the debt. The debenture pays interest at 5% to March 5, 2006 and 5.6% thereafter.

(c) Represents long-term debt repayable in U.S. funds having a U.S. dollar face value of $100,000,000 converted to $115,360,000 Canadian at the time of issue. The recorded amount is based on the foreign exchange rate at December 31, 2001 of 1.5926 (2000 - 1.4995).

(d) Under conditions attached to a portion of the long-term debt, the Corporation is required to pay annually into sinking funds, administered by the Province of Saskatchewan, one percent of the outstanding balances of long-term debt received. The sinking funds include investments having a U.S. dollar value of $16,436,273 recorded at $26,176,409 Canadian dollar equivalent.

(e) The balance consists of funds received from Holdco bearing an interest rate equivalent to the Province of Saskatchewan ninety-day borrowing rate with no fixed repayment terms. Accordingly, the debt has been classified as long-term.

Sinking fund installments and long-term debt repayments (net of sinking funds) due over the next five years are as follows:

	(Thousands of dollars)
2002	$ 3,476
2003	$ 3,053
2004	$ 31,149
2005	$ 2,193
2006	$ 34,791

NOTES TO FINANCIAL STATEMENTS

Note 9 -- Equity advance

The Corporation's equity financing is in the form of equity advances from Crown Investments Corporation of Saskatchewan (CIC) and Holdco.

Note 10 -- Items not affecting cash from operations

	2001	2000 (Restated see Note 3)
	(Thousands of dollars)	
Depreciation and amortization	**$ 145,040**	$ 148,089
Pension income on defined benefit plan	**(15,570)**	(15,665)
Foreign currency translation losses	**8,131**	4,961
Sinking fund earnings	**(2,499)**	(3,656)
Restructuring and other charges	**-**	4,064
Other	**1,581**	1,739
	$ 136,683	$ 139,592

Note 11 -- Financial instruments

Credit risk

The Corporation has a large and diverse customer base that minimizes the concentration of credit risk. In addition, the Corporation does not anticipate non-performance by any counterparties to its derivative financial instruments. The Corporation deals only with those financial institutions whose credit rating is A or better, and monitors the credit risk and credit standing of counterparties on a regular basis. The Corporation manages its exposure so that there is no substantial concentration of credit risk resulting from cross currency swaps and forward contracts.

Currency exposure

The Corporation uses a combination of derivative financial instruments to manage foreign exchange risk exposures. The Corporation does not actively trade derivative financial instruments.

Fair value

Fair values approximate amounts at which financial instruments could be exchanged between willing parties, based on current markets for instruments with similar characteristics, such as risk, principal and remaining maturities. Fair values are estimates using present value and other valuation techniques which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates that reflect varying degrees of risk. Therefore, due to the use of judgement and future-orientated information, aggregate fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

At year-end, the carrying value of all financial instruments approximates fair value with the following exceptions:

	2001		2000	
	(thousands of dollars)			
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Equity in sinking funds	**$ 26,788**	**$ 27,400**	$ 31,061	$ 32,277
Long-term debt, Province of Saskatchewan	**$ 350,190**	**$ 425,947**	$ 301,485	$ 362,941

NOTES TO FINANCIAL STATEMENTS

Note 12 – Employee benefit plans

	2001	2000
	(Thousands of dollars)	
Details of the defined benefit pension plan are as follows:		
Plan assets at fair value	**$ 749,192**	$ 807,363
Accrued benefit obligation	**695,134**	652,308
Surplus	**$ 54,058**	$ 155,055
Employee contributions	**$ 2,662**	$ 2,792
Employer contributions	**-**	-
Benefits paid	**38,576**	36,495

The significant actuarial assumptions used to determine the amounts under the defined benefit pension plan are as follows:

	2001	2000
Discount rate	**6.80%**	6.60%
Expected long-term rate of return on plan assets	**7.25%**	7.25%
Rate of compensation increase	**3.00%**	3.00%

Periodic reviews of plan assumptions occur to determine whether the assumptions remain valid. Environmental factors may cause changes to these actuarial assumptions, which may result in an increase in the accrued benefit obligation.

Included in the defined benefit pension plan assets are $8.0 million (2000 - $7.6 million) of investments in related parties.

	2001	2000
	(Thousands of dollars)	
Pension expense (income) for the year is as follows:		
Defined contribution pension plan	**$ 9,588**	$ 9,625
Defined benefit pension plan	**(15,570)**	(15,605)

Note 13 -- Related party transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to CIC by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. These transactions and amounts outstanding at year-end are as follows:

	2001	2000
	(Thousands of dollars)	
Operating revenues	$ 60,374	$ 65,505
Operating expenses	36,878	31,038
Accounts receivable	8,485	7,690
Accounts payable	8,612	44,026
Capital expenditures	549	483

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

During the year, the Corporation received $34.2 million from the pension plan it sponsors.

Other amounts and transactions due to (from) related parties and the terms of settlement are described separately in these financial statements and notes thereto.

Note 14 -- Commitments

The future minimum lease payments under the operating leases of the Corporation in each of the next five years are as follows:

	(Thousands of dollars)
2002	$ 19,943
2003	$ 19,150
2004	$ 16,880
2005	$ 16,700
2006	$ 16,400

The above payments include $20.5 million for leases with related parties.